

Private Equity Investor Appetite Gives Fund Managers Optimistic Outlook for H2 2016

Growing interest from investors and a predicted increase in exit activity leads private equity fund managers to predict industry growth over the next 12 months

Preqin's latest survey of 187 private equity fund managers finds that many of them expect to see investors committing more to the asset class over the coming months. Almost half (47%) of fund managers surveyed reported increased appetite from investors in Europe, with significant numbers also seeing more interest from investors in North America (45%) and Asia (40%). Looking at different investor types, large proportions of respondents reported increased appetite from family offices (58%) and public pension funds (41%) compared to 12 months ago, while 38% of surveyed managers stated that private pension funds and sovereign wealth funds were also showing greater interest in the asset class.

Buoyed by this continuing appetite from investors, nearly two-thirds (65%) of surveyed firms are expecting overall private equity industry assets to expand over the next year, with just 4% expecting total assets under management to decrease. This optimism in the industry is reflected by the widespread majority of firms which expect both deal and exit activity to increase over the next 12 months. Globally, 62% of private equity managers plan to put more capital to work over the next 12 months, with just 13% expecting to spend less; at the same time, 44% of fund managers are predicting increased exit activity, compared to just 23% which foresee a decline.

Other Private Equity Fund Manager Outlook Facts:

- **Investment by Region:** A higher proportion of fund managers based outside of North America and Europe are planning to put more capital to work in the coming year; **43% of firms in these regions intend to deploy significantly more capital**, while more than a third (35%) are set to increase their investments slightly.
- **Attracting Investor Capital:** Despite the aggregate capital targeted by private equity fund managers falling, the fundraising market remains highly competitive; **76% of firms have seen an increase in competition for investor capital**, compared to just 5% noting a decrease in competition.
- **Deal Pricing:** Valuations remain the biggest concern for fund managers in the present climate; **the largest proportion of firms (48%) believe deal pricing is the biggest challenge facing the industry**, while 46% stated that pricing is higher now than it was 12 months ago.
- **Competition for Assets:** Competition within the private equity industry shows no sign of easing; **the largest proportion of managers (53%) have seen competition increase for mid-market buyout transactions**, although 11% of managers think that competition has diminished when making large buyout deals.
- **ESG Factors:** **The majority of private equity firms (53%) always consider ESG factors as part of their deal making process**, although, 14% never take such factors into consideration. Just a tenth of managers frequently decide against investing in an asset due to ESG, with 38% occasionally opting out as a result.

To access further information and analysis, please see the report below:

<https://www.preqin.com/docs/newsletters/pe/Preqin-Private-Equity-Spotlight-August-2016.pdf>

Comment:

"This latest survey shows that private equity fund managers are still seeing growing appetite from investors. The portfolio diversification and record returns provided by the industry as of late have continued to attract investors to the asset class. Although the fundraising market remains ever-more competitive, recent high fundraising levels indicate that capital is continuing to flow into the market.

Given the positive fundraising environment and an expected uptick in exit activity, fund managers are predicting industry assets under management will continue to grow over the next 12 months. Although perennial concerns over pricing and deal valuations remain prominent, managers are confident of putting more capital to work over the next 12 months as they attempt to find well-priced assets."

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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